

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 BRASILIA 002226

SIPDIS

SENSITIVE

TREASURY FOR PARODI, STATE PASS TO USTR AND USAID/LAC/AA

E.O. 12958: N/A

TAGS: [PGOV](#) [PREL](#) [ECON](#) [BR](#)

SUBJECT: BRAZIL CORRUPTION SCANDAL UPDATE, WEEK OF 15-19
AUGUST 2005

REF: A. BRASILIA 2219

[B](#). BRASILIA 2150

[C](#). BRASILIA 2082

[D](#). BRASILIA 2025

[E](#). BRASILIA 1979

[F](#). BRASILIA 1874

[G](#). BRASILIA 1973

[H](#). BRASILIA 1631

[1](#)1. (SBU) SUMMARY. This was a somewhat quiet week in the the corruption scandals (refs) plaguing Brazilian President Lula da Silva's government and the Workers' Party (PT). Two protests, one in support of and one against Lula, took place in Brasilia on 16-17 August. In his testimony before the Vote-Buying Scheme Congressional Inquiry Committee, ex-PT treasurer Delubio Soares accepted responsibility for taking out approximately \$22 million in loans from moneyman Marcos Valerio for his party, but denied that the money was used to bribe lawmakers. Leading opposition figures in Congress announced that they would not push for presidential impeachment. And a new poll reportedly will show Lula losing in elections next year to opposition candidates. END SUMMARY.

RALLIES FOR AND AGAINST LULA

[1](#)2. (U) Two protests prompted by the corruption scandals took place in Brasilia during the week. On 16 August, about ten thousand protestors marched past ministries and congress, demonstrating support for President Lula but demanding punishment for those linked to the scandal. Protestors from the National Student Union, labor groups including the sole Workers' Union (CUT), and the Landless Rural Workers Movement chanted "Lula stay." This was the first mass rally in the capital since the scandal erupted in June. The following day, an anti-Lula protest of about ten thousand persons, mainly university professors and some left-wing parties (PDT, PPS, PCB, PSOL), called for the president's resignation or impeachment. While Lula's popularity rates have declined recently, polls reveal that the majority of Brazilians still do not want an impeachment because of the expected political and economic repercussions.

FORMER PT TREASURER TESTIFIES BEFORE CONGRESS

[1](#)3. (U) On 18 August, former PT treasurer Delubio Soares delivered his second testimony before a Congressional Inquiry Committee (CPI). In his statement before the Vote-Buying Scheme CPI, Soares claimed full responsibility for taking out approximately \$22 million in loans from private sector moneyman Marcos Valerio for his party, but denied that the money was used to bribe lawmakers. According to Soares, the funds were used to cover campaign expenses for the PT and PL parties, and confirmed that the illegal funds made their way to President Lula's presidential campaign via allied party politician Ciro Gomes, who currently serves as the National Integration Minister. However, Soares emphasized that the President was not aware of the loans. The previous day, the PT had issued a formal mea culpa for its involvement in the corruption schemes, contending that it was only certain members*-not the official party structure*-that took part in the illicit activities.

OPPOSITION STEPS BACK FROM PRESIDENTIAL IMPEACHMENT

[1](#)4. (U) President Lula seemed to have gained a respite from talk of impeachment this week, as leading political figures and media editorialists stepped back to urge caution and circumspection. This week saw leading figures in the congressional opposition (PSDB, PFL, PPS, PDT, PV and elements of the PMDB) declaring on 15 August through a joint committee that talk of impeachment of Lula is premature. Senator Jose Sarney echoed this cautious note in a speech before the Senate on 16 August, and editorialists in leading papers are also pointing out the dangers and disadvantages for Brazil's political and economic stability that could arise from an impeachment of a figure as popular and iconic of Brazil's democratic growth as Lula. The motive behind

this restraint appears to be an understanding that the political climate does not favor radical actions against the President. "The political will, the political climate, which is crucial for an impeachment, does not exist," said PSDB congressman Eduardo Paes. A lead editorial in right of center "O Estado de Sao Paulo" this week also reflected this line of thought. Moreover, political leaders and commentators fear that a presidential impeachment could lead to one of two unsettling scenarios. Best case: It would mean giving power to Lula's vice president, Jose Alencar, a nationalist businessman whose opposition to the government's tight economic policies is widely acknowledged. Worst case: The ascension of Severino Cavalcanti, a much ridiculed backbencher who accidentally won the Chamber of Deputies' presidency earlier in the year in a demonstration of incompetence by Lula's congressional forces. Cavalcanti is the second in the presidential line of succession.

15. (SBU) Given these scenarios and the absence at present of evidence further implicating the President directly in the corruption scandal, the opposition seems inclined to allow a weakened Lula to remain in office until the October 2006 election rather than risk a radical confrontation with an uncertain outcome. Preliminary tabulations in an IBOPE poll this week indicate that Lula would lose by significant margins to the three possible PSDB candidates*-SP Mayor Jose Serra, SP Governor Geraldo Alckmin, and former President Fernando Henrique Cardoso--if elections were held today.

DANILOVICH